

U. S. TREASURY DEPARTMENT
Internal Revenue Service
Washington 25, D. C.

September 17, 1954

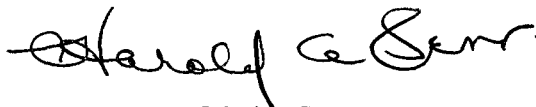
Alcohol and Tobacco Tax Division
Industry Circular No. 54-4

Address by Director, Alcohol and Tobacco Tax
Division Reviewing the Program to Simplify
and Modernize the Liquor Tax Laws.

Proprietors of registered and fruit distilleries,
internal revenue bonded warehouses, rectifying
plants, taxpaid bottling houses, industrial
alcohol plants, bonded warehouses and denaturing
plants, bonded wineries and wine storerooms,
and breweries:

1. On September 13, 1954, in an address delivered at the annual meeting of the National Alcoholic Beverage Control Association, Chicago, Illinois, Dwight E. Avis, Director, Alcohol and Tobacco Tax Division, Internal Revenue Service, reviewed the program to simplify and modernize the liquor tax laws.

2. In view of the general industry interest in this subject, the address is enclosed herewith for the information of all concerned.



Harold A. Serr,
Acting Director, Alcohol and Tobacco Tax Division.

Enclosure.

Remarks By
Dwight E. Avis
Director, Alcohol and Tobacco Tax Division
Internal Revenue Service
At the Annual Meeting of the
National Alcoholic Beverage Control Association
Chicago, Illinois
September 13, 1954

Mr. Chairman and members of the National Alcoholic Beverage Control Association: I am very appreciative of the invitation extended by Bob Smith, your president, and Walter Mitchell, your secretary, to be with you again on the occasion of the 17th Annual Meeting of the National Alcoholic Beverage Control Association. This is the third such meeting I have attended and I am beginning to feel very much at home. You could not have selected at this time of the season a more appropriate setting for your meeting than here on the shores of Lake Michigan. This convention is unsurpassed as a forum for an exchange of views with you liquor administrators, with whom I have so much in common, and it also enables me to renew acquaintances in the industry. The freedom which I am allowed in attending executive sessions and participating in your discussions is greatly appreciated.

Last September at your annual meeting in New York, I presented to you and to the industry our program to simplify and modernize the liquor tax laws. I pointed out that the internal revenue liquor laws were enacted in the horse and buggy days and in many of their aspects were archaic and outmoded and no longer adaptable to modern business operations or to realistic regulatory control. I told you that we were going to do something about this situation, and announced the appointment of an Alcohol Tax Survey Committee composed of internal revenue personnel to conduct an extensive study of the entire field of Federal liquor regulation with a view to making recommendations for a revision of the Federal liquor laws. I solicited and urged your participation and cooperation and that of the industry through its trade associations in this project.

With your permission today I would like to outline what we have already accomplished and what is in contemplation.

At the time I addressed you last September I did not conceive that any phase of this program could possibly be enacted into law this year. A combination of circumstances along with the disposition of the Congress to revise the Internal Revenue Code brought industry and Government together with the result that differences were reconciled and we were able to submit to the Ways and Means Committee a complete revision and rewrite of the wine, malt liquor and tobacco tax laws. Substantial amendments were also made as to distilled spirits, but time did not permit of a complete revision. This work has been accomplished by industry and Government sitting down together and working out their legislative problems. H.R. 8300 embodying the revision of the Internal Revenue Code was signed by President Eisenhower on August 16, 1954, and the liquor and tobacco provisions will be effective January 1, 1955.

Many of the provisions of the new Code relating to liquor and tobacco are far-reaching and even revolutionary. The 1954 Code authorizes the Secretary of the Treasury by regulations to substitute a return system for collecting liquor and tobacco excise taxes for the present stamp system. It changes existing law and enables distillers, brewers and winemakers to conduct other businesses in their plants which will not jeopardize the revenue. As an example, in the case of brewers -- soft drinks and similar products may be manufactured and bottled in the brewery premises. The new Code authorizes the destruction of distilled spirits in bond -- thus protecting distillers and warehousemen from severe financial loss and even bankruptcy where forceouts of distilled spirits occur under existing law for which there is no market. Winemakers may destroy wine before taxpayment where surpluses exist or wine is of a poor quality.

Obsolete sections of the old Code were deleted. Excessive statutory details were eliminated and standards established to facilitate the more efficient administration of the liquor laws and to permit adaptation to changing conditions and commercial practices. Unnecessary records have been eliminated and provision made for a wider utilization of commercial records for Government purposes. The Secretary of the Treasury has been given more latitude in the supervision of distilleries for the purpose of more efficiently utilizing Government personnel. Pilot plant operations are authorized to develop new and more efficient regulatory procedures for registered distilleries and industrial alcohol plants. These are some of the more important of the many changes in existing law.

I have brought you up to date on the progress which has been made in the past year in modernizing the liquor tax laws. Let us look now to what we may expect in the coming year as this program moves forward.

In Commissioner T. Coleman Andrews the Internal Revenue Service has an experienced tax practitioner, an able Government administrator, and a business-management expert. It is hardly necessary for me to tell you that he will be satisfied with nothing less than a modern system of Internal Revenue liquor control at minimum cost to Government and industry. With a view to accomplishing the Commissioner's objectives the Alcohol Tax Survey Committee on July 14 issued a general statement which was made available to the industry defining the area wherein further legislative changes could be anticipated and which set forth many of the related problems which had to be resolved. My remarks today will be primarily directed to the further steps which the Committee has taken to implement these objectives.

The major area of liquor laws which the Alcohol Tax Survey Committee is studying relates to the establishment and operation of the various types of plants engaged in the production, packaging, warehousing, denaturing, rectifying and bottling of distilled spirits (including alcohol and fruit spirits). Therefore, any modern structure

of liquor tax laws must be primarily concerned with the establishment and operation of these distilled spirits plants.

There is being released today a proposed plan, prepared by the Alcohol Tax Survey Committee, for the revision of the internal revenue laws relating to the establishment and operation of such plants, copies of which are available at the press room of this meeting.

These tentative recommendations present a suggested framework for the modern structure of distilled spirits statutes to which I have referred.

The purpose in preparing the plan was to facilitate the drafting of the proposed revision of these statutes by giving us an integrated program to sit down and talk over with the various industry interests so that we can move forward without delay in reaching agreement on the type of house we hope to build.

I feel that this is an important step and that it must be taken immediately if we are to have a further legislative program to present to the Congress on January 1st.

I am inviting the industry to send their representatives to Washington on September 30th to go over the Committee's plan and give us the benefit of their views and suggestions.

In arriving at this proposed plan, the Committee has had the benefit of many valuable recommendations received from the industry. I wish to emphasize particularly the splendid work which the six major trade associations have done in clarifying and presenting the industry's views.

In working out the plan the Committee was governed by certain guiding principles which it has listed and discussed as a preface to the plan so that all persons interested in the revision of these laws could clearly see the basis for the Committee's proposed recommendations.

This statement of guiding principles also helps to show why some of the suggestions for revision were not adopted, among which were proposals requiring more supervisory control by the Government and suggestions which were not reasonably capable of adoption.

I might add in this regard that past history has shown that a bill to amend the liquor tax laws which is controversial within the industry has little chance of favorable action by the Congress.

It is no secret that the principal controversial area around which all of the major competitive skirmishes revolve is the issue as to whether all beverage distilled spirits should be bottled in bond (prior to determination of tax) and the tax paid on a proof gallon basis on the quantity of the cased product removed for distribution.

Although all suggestions received were fully considered by the Committee, it found no compelling reason to include these industry controversies as cornerstones upon which to build a general modernized revision of the distilled spirits laws and accordingly no major change has been proposed in these areas. However, the plan recognizes and corrects, in large part, the inequities which many of the proposals in these controversial areas have sought to eliminate, without disturbing existing trade relationships to the degree which would result in seriously impeding, or possibly preventing, adoption of a program for modernization of the distilled spirits laws.

In brief, the Committee feels that its tentative recommendations are consistent with the Government's interest, afford overall equitable treatment to the industry, and constitute a sound basis for beginning discussions to develop the widest areas of general industry-government agreement.

I am not going into detail about the plan because copies of it are available. However, I will point out a few of the highlights.

The plan eliminates the present legal concept under which nine completely separate establishments are necessary to perform the activities relating to production, storage, denaturation, processing and bottling of distilled spirits, including alcohol, and proposes a single distilled spirits plant with three functional departments, which would be the Distilling Department, the Warehousing Department, and the Bottling Department.

Operations within the Distilling Department and the Bonded Warehousing Department would be conducted in bond. The Bottling Department would be authorized to receive only spirits which have been removed from bond after determination of the tax.

The three departments would permit the continuation of all existing operations within present facilities. However, elimination of separate establishments would permit simplification of qualification and construction requirements and the additional functions recommended to be authorized in the Distilling Department and the Bonded Warehousing Department would make possible a more efficient use of space and equipment and permit much greater freedom in operations.

The plan provides that a proprietor who has any facility or combination of facilities in one general location would file a single simplified application for approval to operate. In other words, the plant could consist of only one department or it could be any combination of departments.

The present hodge-podge of laws created by superimposing Title III of the National Prohibition Act on the revenue laws would be eliminated and replaced by a revised body of revenue laws of uniform application drawn to meet modern conditions.

This uniform body of laws would further the Government's interest by permanently providing for full utilization of all plant facilities for national emergency purposes.

A major innovation of the plan permits the bottler, when properly qualified as to security, to withdraw spirits from bond upon determination of the basic tax and file tax returns covering such spirits.

The bottler would be fully accountable for the total quantity of spirits so withdrawn, and would file returns and pay the tax on such spirits within a specified period following receipt of the spirits in the Bottling Department.

The bottler could take credit on his returns for reported normal transportation, processing and bottling losses within a statutory maximum based upon statistical evaluation of historical losses in these operations.

Established major casualty losses, occurring after determination of tax withdrawal from bond and prior to the completion of the bottling of the spirits, would also be taken as a credit on the bottler's tax return. Such losses would include those arising from Acts of God, fire, flood, and transportation accidents.

The Committee recognizes the necessity of providing the Government with adequate security for its revenue on a basis equitable to industry. Study is continuing on the problems involved in revenue security, including an evaluation of present lien and bond requirements. The Committee is confident that reasonable solutions to the revenue security problems can be achieved within the framework of the projected plan and further information in this regard will be available for discussion at an early date.

In conclusion I want to point out that the whole modernization program represents to a substantial degree a liberalization of existing regulatory restrictions and supervisory controls.

The Federal Government is primarily concerned with the collection of taxes and the protection of the revenue. It is our purpose to see that Government supervision of distilleries, alcohol plants and other establishments is directed to these objectives, and that freedom of operations and the accompanying duty of safeguarding spirits prior to taxpayment, including adequate policing, be the responsibility insofar as practicable of the proprietors. With this in mind the Alcohol Tax Survey Committee has proposed under authority contained in the 1954 Code, and independent of the plan I have discussed here today, that night-time supervision by storekeeper-gaugers be discontinued at beverage distilleries and that the entry gauging of spirits in packages

be made by the distiller under Government supervision. Night-time and Sunday supervision of industrial alcohol plants was discontinued and supervision over bottling plants reduced as of the first day of this month.

The manner in which proprietors discharge their new responsibilities will determine the extent to which the liquor industry may expect a further relaxation of governmental restrictions in the future.

I am proud of what we have been able to accomplish. I voice the hope that with the continued cooperation and assistance of you liquor administrators, trade associations and industry members that I may be able to report to you at your next annual meeting that we have achieved our objective.